

2015-17 Long-Range Plan Key Issues Update

On September 5, 2015, the Village Council approved the [2015-17 Long Range Plan](#). The Village Council developed the Long-Range Plan during the three-month period of June to August 2015. The Long-Range Plan consists of the Strategic Goals, solutions and strategies to address key issues affecting the future of the Village and a list of Priority Action Items that will serve as the work plan from September 2015 to April 2017.

On May 10, 2016, the Village Council [updated the Priority Action Items work plan](#).

The purpose of this update is to identify and discuss key issues which may materially affect the Village in the next one to three years and which may affect the proposed FY17 municipal budget.

Staff has identified the following issues:

- Potential Increases to the Property Tax Levy
- Unfunded Liabilities for Public Safety Pensions and Other Post Employment Benefits

The issues are summarized in the next pages of this report.

STRATEGIC GOALS

The Long Range Plan contains these five Strategic Goals to guide Village actions from 2015 to 2017 and beyond.

- Steward of Financial, Environmental and Neighborhood Sustainability
- Exceptional Municipal Services
- Top Quality Infrastructure
- Strong, Diverse Local Economy
- Continual Innovation

Property Tax Levy History

Levy for Public Safety Pensions

- Increased 46.8% over the past five years rising from \$3.74 million in 2012 to \$5.49 million in 2016

Levy for Capital Projects

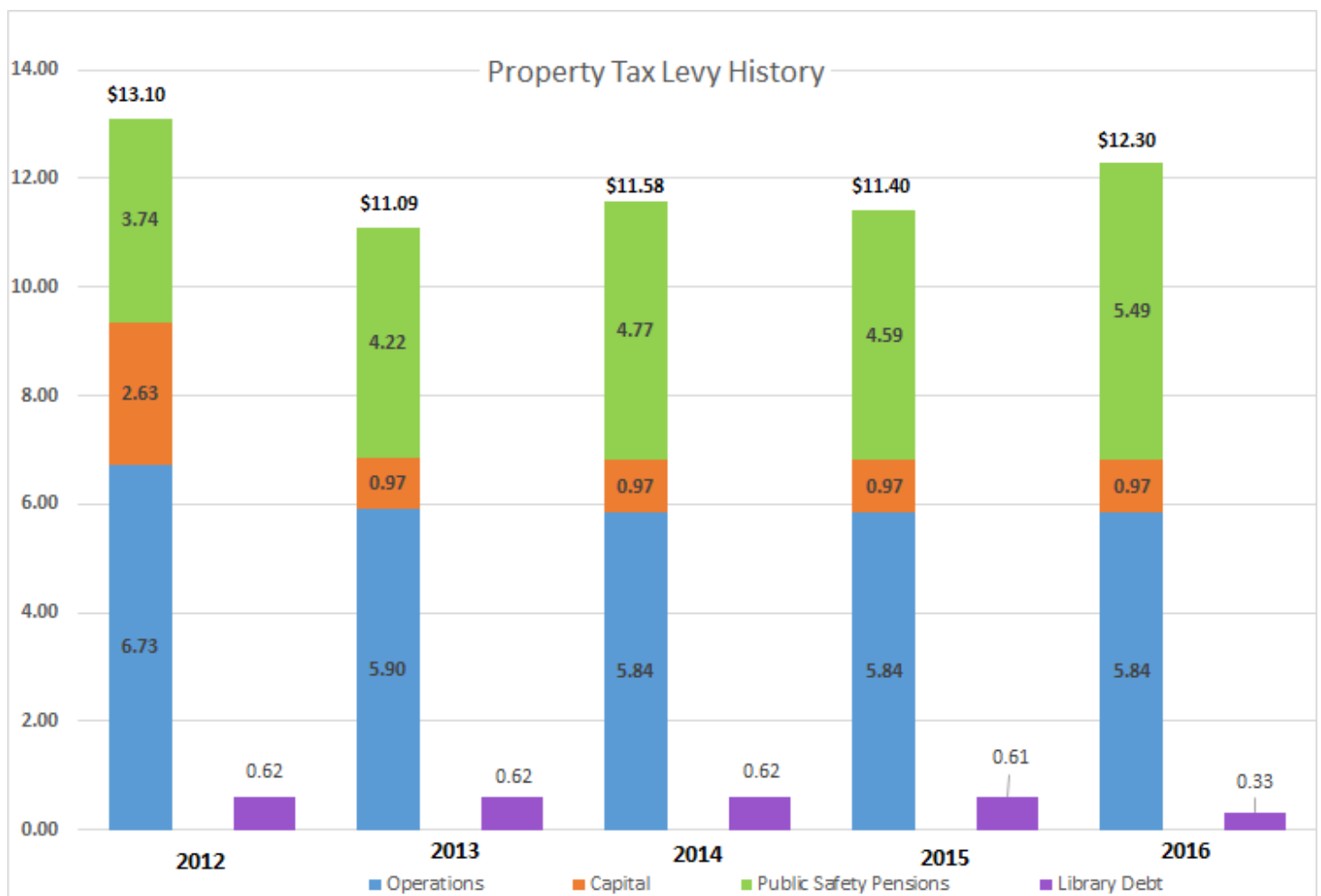
- Remained constant at \$0.97 million since 2013
- Decreased from \$2.63 to \$0.97 million in 2013 with the creation of the Stormwater Utility

Levy for Operations

- Decreased 13.2% over the past five years dropping from \$6.73 million in 2012 to \$5.84 million in 2016
- Decreased from \$6.73 million to \$5.90 million in 2013 with the creation of the Stormwater Utility

Levy for Library Improvements

- Remained flat at about \$620,000 from 1996 to 2015
- Decreased to \$330,000 in 2016 to make the final payment on the library improvements bonds
- Will not be levied in the future as the bonds for the library improvements were paid off in 2016



Future Property Tax Levy

Levy for Public Safety Pensions - Expected Increase of \$800,000 to \$1.3 Million by 2018

- Will increase by \$500,00 in 2017 and by approximately \$300,000 annually, all else equal, beginning in 2018 to make the required contributions pursuant to state law
- May increase by up to \$500,000 in the next year or two if the Police Pension Board and Fire Pension Board change the assumed investment rate of return from 7.5% to 7.25%

Levy for Police Station Improvements - Planned Increase of \$600,000 in 2018

- Planned to increase by \$600,000 beginning in 2018 to make the annual debt service payments on the planned \$14.5 million bond issuance to pay for the addition and renovation to the Police Station
- Will be offset by the elimination of the \$620,000 levy for the library improvements

Levy for Operations & Levy for Capital Projects - Potential Increase of up to \$3.9 Million in 2017

- Could increase by up to \$3.9 million if the revenue for the Stormwater Fund is shifted from stormwater fees to the property tax levy
- The increase, if any, could be phased in over multiple years
- Any increase will be offset by an equal reduction in the revenue generated by stormwater fees

Potential Property Tax Levy, 2017 - 2018

Year	Levy Amount	Potential Increase to Levy	Percent Change to Prior Year	Annual Payment for Typical House
2016	\$12.3 million	--	--	\$609
2017	\$12.8 ^a to \$17.2 ^b million	\$0.5 to \$4.9 million	4.1% to 39.8%	\$634 to \$851
2018	\$13.7 ^c to \$18.1 ^d million	\$0.9 million	5.2% to 7.0%	\$678 to \$895

Notes

- A. The \$12.8 million levy assumes that the public safety pension levy will increase by \$500,000
- B. The \$17.2 million levy assumes that the public safety pension levy will increase by \$1.0 million and \$3.9 million will be added to the levy for stormwater related expenses
- C. The \$13.7 million levy assumes the \$12.8 million levy for 2017 will be increased by \$900,000 (\$300,000 increase for public safety pensions and \$600,000 for the police station bonds)
- D. The \$18.1 million levy assumes that the \$17.2 million levy for 2017 will be increased by \$900,000 (\$300,000 increase for public safety pensions and \$600,000 for the police station bonds)

	Public Safety Pension Unfunded Liability	Other Post Employment Benefits Unfunded Liability
Issue	<p>The unfunded liability for public safety pensions has increased (percent funded has decreased) while Village contributions to the pension funds has increased.</p> <p>The unfunded liability now appears in the Village financial statements and may affect future bond ratings.</p>	<p>The unfunded liability for the required provision of retiree health benefits has been calculated as required by the Government Accounting Standards Board (GASB).</p> <p>The unfunded liability will appear in Village financial statements beginning in 2018 and may affect future bond ratings.</p>
Background & Key Facts	<p>Public safety pension benefit levels are set by the State.</p> <p>The Village has made all required contributions to the public safety pension funds.</p> <p>Since 2013, the Village has contributed more than the required contribution to the public safety pension funds.</p> <p>The unfunded liabilities for each fund are:</p> <p>Police: \$40,512,814 Fire: \$37,537,259</p> <p>The percentage funded amount has declined for both pension funds despite significant increases in the Village contributions.</p>	<p>All municipalities are required to provide retirees access to the employee health benefit program.</p> <p>The OPEB unfunded liability is the actuarially calculated difference between the amount paid to the Village by retirees and the amount the Village will have to pay to provide their health benefits. The unfunded liability is \$11.5 million.</p> <p>Recent GASB pronouncements require all municipalities to calculate their OPEB unfunded liability amounts and to include them in financial statements beginning in 2018.</p> <p>In 2012, the Village reduced the OPEB unfunded liability by \$7.2 million by providing health benefits to retirees 65 years of age and older using a fully insured Medicare Supplement plan.</p> <p>The provision of required Public Safety Employee Benefit Act benefits to retired injured public safety employees has increased the OPEB unfunded liability by \$3 million since 2014.</p>
Strategies & Solutions	<p>Contribute money in excess of the required contribution amount to the public safety pension funds on an annual basis.</p> <p>Consider changes in public safety staffing levels to reduce future pension liabilities.</p>	<p>Consider establishing an OPEB trust to fund current and future liabilities similar to a pension fund.</p> <p>Consider changing employee contribution amounts to reduce the Village's unfunded liability.</p>

FAQ on Public Safety Pensions

What Does "Public Safety Pension" Mean?

Police officers and firefighters are eligible for pension benefits upon retirement if they meet certain eligibility criteria which are set by State of Illinois law. Each municipality that employs police officers and firefighters must maintain a fund to pay the pensions. The pension funds are invested using parameters established by the State of Illinois to increase the value of the fund over time. The level of pension benefits is determined by State law.

Who Pays for Public Safety Pensions?

Both the employer and the employee are responsible for funding the public safety (police and fire) pension funds. Police officers contribute 9.91% and firefighters contribute 9.455% of their salary toward their pensions. This percentage is governed by State statute. The Village makes an annual contribution to each pension fund. The amount is based on an actuarial calculation that is determined by figuring the potential cost of the system based on statistical analysis which considers investment returns, employee contributions, and pension benefit payout costs.

Does the Village Fund the Pensions at the Required Amount?

Yes, each year the Village makes the required annual contribution to both the Police and Fire Pension Funds.

What Does "Pension Levy" Mean?

The Village must contribute a minimum amount to its pension funds to meet the funding level required under state law. The funding level refers to the amount in the pension fund compared to the potential liability. This amount is the Village's annual property tax levy for pension contributions.

